

THE OFFICE OF REGULATORY STAFF

SURREBUTTAL TESTIMONY

OF

SHARON G. SCOTT

AUGUST 31, 2011



DOCKET NO. 2011-47-WS

**Application of Carolina Water Service, Inc.
for Approval of an Increase in Its Rates for
Water and Sewer Services Provided to All of
Its Service Areas in South Carolina**

SURREBUTTAL TESTIMONY OF SHARON G. SCOTT

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2011-47-WS

**IN RE: APPLICATION OF CAROLINA WATER SERVICE, INC. FOR
APPROVAL OF AN INCREASE IN ITS RATES FOR WATER AND SEWER
SERVICES PROVIDED TO ALL OF ITS SERVICE AREAS IN SOUTH
CAROLINA**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
OCCUPATION.**

A. My name is Sharon G. Scott. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina, 29201. I am employed by the South
Carolina Office of Regulatory Staff ("ORS") as the Senior Manager for Rate
Cases.

**Q. ARE YOU THE SAME SHARON G. SCOTT WHO PRESENTED DIRECT
TESTIMONY IN THIS DOCKET?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN
THIS PROCEEDING?**

A. The purpose of my surrebuttal testimony is to address issues in the rebuttal
testimonies of Company witnesses Steven Lubertozzi and Kirsten Weeks.

1 **Q. IN REGARDS TO MR. LUBERTOZZI'S REBUTTAL TESTIMONY,**
2 **HOW MUCH ARE THE ADDITIONAL REGULATORY COMMISSION**
3 **EXPENSES PROPOSED BY THE COMPANY?**

4 **A.**The Company has proposed to include \$406,352 for rate case expenses for
5 this proceeding, \$229,298 more than the \$177,054 verified by ORS as of July
6 2011. For rate case expenses, ORS proposes to include \$59,018, or \$177,054,
7 amortized over three years, as stated in my direct testimony.

8 **Q. HAS ORS RECEIVED OR REVIEWED ANY OF THE ADDITIONAL**
9 **REGULATORY COMMISSION EXPENSES PROPOSED BY MR.**
10 **LUBERTOZZI?**

11 No. The Company has not provided any additional information and
12 therefore ORS has not analyzed or reviewed any additional rate case expenses. It
13 would be at the Commission's discretion to determine if any other rate case
14 expenses should be allowed.

15 **Q. IN REGARDS TO MS. WEEKS' TESTIMONY, PLEASE DISCUSS**
16 **MISCELLANEOUS REVENUES FOR NON-CONTRIBUTIONS IN AID**
17 **OF CONSTRUCTION (CIAC) AND OTHER ADJUSTMENTS.**

18 **A.**ORS initially made an adjustment to miscellaneous revenues for \$94,397,
19 which included \$71,713 for non-CIAC revenue and \$22,684 (\$3 rounding diff.)
20 for revenue related to a third party vendor. The total \$94,397 was allocated
21 between water and sewer. ORS agrees that \$71,713 should be for sewer service
22 only and the remaining \$22,684 should be allocated between water and sewer.
23 The total combined adjustment remains \$94,397, however the water operations

1 adjustment is now \$7,114 ($\$22,684 * .3136$) and the sewer operations adjustment is
2 \$87,283 ($\$71,713 + (\$22,684 * .6864)$). The update is reflected in Adjustment 2.

3 Next, ORS further evaluated the revenue adjustment for non-CIAC and
4 agrees that the CIAC account balance should be adjusted to reflect the removal of
5 \$71,713, which was included in revenue. As a result, Adjustment 16 changed
6 from (\$13,190) to (\$12,114), Adjustment 32 changed from (\$856,576) to
7 (\$784,863) and Adjustment 33 changed from \$13,190 to \$12,114.

8 Lastly, ORS believes Adjustment 13 for (\$13,059) should remain an
9 exclusion from operating expenses. The adjustment is the net of other income
10 related to various deposits totaling \$3,969 and other expenses for \$17,028 that
11 were booked in accounts 421 (Non-utility Income) and 426 (Miscellaneous Non-
12 utility Expenses), respectively. The income and expense items in these accounts
13 are not related to regulated operations and should be removed. Additionally,
14 these amounts are not related to the revenue removed by the Water and
15 Wastewater Department for a third party vendor, as discussed by ORS witness
16 Willie Morgan.

17 **Q. DO YOU AGREE WITH THE ADJUSTMENTS MS. WEEKS**
18 **RECOMMENDS FOR SALARIES, WAGES, OPERATING EXPENSE**
19 **CHARGED TO PLANT, BENEFITS AND PAYROLL TAXES?**

20 **A.** No. ORS made its salary adjustment based on wage rates and the number
21 of employees as of June 2011. ORS was able to analyze, verify and sample salary
22 information and complete the adjustment in a timely manner for required filing
23 dates. ORS does not propose to make any adjustments for vacancies and wage

1 rates filled after June 2011. However, during the examination of the rebuttal
2 testimony, it was discovered that there was an error in a Company spreadsheet
3 which resulted in the incorrect allocation being used for the office employees in
4 South Carolina. The original allocation factor used was 21.85% and the correct
5 factor is 63.91%. As a result, ORS updated Adjustment 8 to reflect changes in
6 operating expenses charged to plant. The initial adjustment was \$69,745 and the
7 updated adjustment is \$69,815. ORS also updated Adjustment 9 for salaries and
8 wages. The initial adjustment was for (\$69,985) and the updated adjustment is
9 (\$27,000). ORS updated Adjustment 12 to reflect the change in pension and other
10 benefits. The initial adjustment was for (\$40,464) and the updated adjustment is
11 (\$32,038). ORS updated Adjustment 17 to reflect changes in payroll taxes. The
12 initial adjustment was for (\$7,045) and the updated adjustment is (\$3,416).

13 **Q. DID ORS INADVERTANTLY LEAVE OUT SALARIES FOR THE**
14 **LEADERSHIP DEPARTMENT AND THE OPERATIONS OFFICE**
15 **DEPARTMENT?**

16 **A.** No. ORS was provided payroll information by the Company for all
17 employees to be included in the wage adjustment. ORS reviewed its adjustment
18 and confirmed that all salaries are accounted for, including the departments for
19 613500 and 615500.

20 **Q. DOES ORS PROPOSE TO INCLUDE THE COMPANY'S PROFIT**
21 **SHARING PLAN IN THE BENEFITS EXPENSE?**

22 No. ORS does not propose to include as an expense, the Company's
23 contribution of 4% of its profits to the employees as a profit sharing plan. ORS

1 supports the Company's sharing of its profits with employees, but considers it an
2 owners' expense which should not be charged to the ratepayer. ORS has included
3 other benefits such as health, dental, life insurance, and tuition in Adjustment 12.

4 **Q. DOES ORS PROPOSE ANY CHANGES TO THE TRANSPORTATION**
5 **EXPENSE ADJUSTMENT?**

6 **A.** No. While ORS updated South Carolina office salaries, this would not
7 necessitate a change in transportation expenses since these employees do not
8 operate Company vehicles.

9 **Q. DO YOU AGREE WITH MS. WEEKS THAT \$2,197 OF "NON-**
10 **ALLOWABLE" EXPENSES SHOULD BE INCLUDED IN OPERATING**
11 **EXPENSES?**

12 **A.** Yes. After further review of the information provided by the Company
13 regarding the purchase order and invoice procedures, ORS agrees that \$2,197 of
14 expenses previously classified as non-allowable should be included in operating
15 expenses. The previous Adjustment 10 for (\$41,144) is reduced by \$2,197 to
16 reflect this change. The current adjustment removes (\$38,947) for non-allowable
17 expenditures.

18 **Q. DOES ORS PROPOSE ANY CHANGES TO THE ADJUSTMENT TO**
19 **REMOVE VEHICLES FROM PLANT IN SERVICE?**

20 **A.** No. ORS did not propose any changes to those employees' salaries that
21 operate vehicles and therefore no adjustment is necessary. ORS verified 31 vehicles
22 allocated to Carolina Water Service as of our report filing and made our adjustment
23 accordingly.

Q. DOES ORS RECOMMEND ANY CHANGES TO THE DEPRECIATION AND AMORTIZATION EXPENSE ADJUSTMENT AS SHOWN IN AUDIT EXHIBIT SGS-5?

A. ORS proposes one change associated with capitalized time for updated salaries. Depreciation expense is updated to reflect the change in capitalized wages from (\$69,745) to (\$69,815). The update, however, is minimal and does not change Adjustment 15. No other changes were made to depreciation expense or accumulated depreciation for non-allowable plant, vehicles or computers. ORS also made a change to amortization expense for removal of \$71,713 from CIAC since this amount is included in revenue. Changes have also been made to corresponding adjustments for CIAC which include Adjustments 16, 32, and 33.

Q. HAVE THE EXHIBITS BEEN UPDATED TO REFLECT ORS CHANGES?

A. Yes. All Surrebuttal Audit Exhibits attached have been updated to reflect the above changes. Updates were made specifically to Adjustments 2, 8, 9, 10, 12, 16, 17, 25, 32, and 33 along with corresponding fall-out adjustments. The resulting rate of return on rate base is 14.27%, the operating margin is 23.75% and the resulting return on equity is 21.99%.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

Carolina Water Service, Inc.
Docket No. 2011-47-WS
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2010
Combined Operations

<u>Description</u>	(1) <u>Application Per Books</u> \$	(2) <u>Accounting & Pro Forma Adjustments</u> \$	(3) <u>After Accounting & Pro Forma Adjustments</u> \$	(4) <u>Applicant's Proposed Increase</u> \$	(5) <u>After Applicant's Proposed Increase</u> \$
<u>Operating Revenues:</u>					
Service Revenues - Water	2,173,555	260,064 (A)	2,433,619	1,973,636 (S)	4,407,255
Service Revenues - Sewer	5,170,766	155,769 (A)	5,326,535	726,254 (S)	6,052,789
Miscellaneous Revenues	164,957	94,397 (B)	259,354	269,437 (T)	528,791
Uncollectible Accounts	(421,242)	342,207 (C)	(79,035)	(805) (U)	(79,840)
<u>Total Operating Revenues</u>	<u>7,088,036</u>	<u>852,437</u>	<u>7,940,473</u>	<u>2,968,522</u>	<u>10,908,995</u>
<u>Operating Expenses</u>					
Maintenance Expenses	2,749,597	196,911 (D)	2,946,508	0	2,946,508
General Expenses	1,927,393	(318,430) (E)	1,608,963	0	1,608,963
Interest on Customer Deposits	0	1,277 (F)	1,277	0	1,277
Depreciation	1,011,086	(47,505) (G)	963,581	0	963,581
Amortization of CIAC	(324,831)	(12,114) (H)	(336,945)	0	(336,945)
Taxes Other Than Income	790,756	4,691 (I)	795,447	28,232 (V)	823,679
Income Taxes - State & Federal	203,280	256,403 (J)	459,683	1,124,661 (W)	1,584,344
Amortization Investment Tax Credit	(8,852)	0	(8,852)	0	(8,852)
Amortization of Plant Acq. Adj.	(9,862)	0	(9,862)	0	(9,862)
<u>Total Operating Expenses</u>	<u>6,338,567</u>	<u>81,233</u>	<u>6,419,800</u>	<u>1,152,893</u>	<u>7,572,693</u>
<u>Total Operating Income</u>	<u>749,469</u>	<u>771,204</u>	<u>1,520,673</u>	<u>1,815,629</u>	<u>3,336,302</u>
Less: Interest During Construction	9,437	(9,437) (K)	0	0	0
Less: Interest on Debt	653,687	(653,687) (L)	0	0	0
Plus: Customer Growth	0	14,329 (M)	14,329	18,509 (X)	32,838
<u>Net Income for Return</u>	<u>86,345</u>	<u>1,448,657</u>	<u>1,535,002</u>	<u>1,834,138</u>	<u>3,369,140</u>
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	52,220,287	(162,062) (N)	52,058,225	0	52,058,225
Accumulated Depreciation	(8,795,680)	682,310 (O)	(8,113,370)	0	(8,113,370)
Net Plant in Service	43,424,607	520,248	43,944,855	0	43,944,855
Cash Working Capital	683,468	(114,034) (P)	569,434	0	569,434
Contributions in Aid of Construction	(18,096,671)	(772,749) (Q)	(18,869,420)	0	(18,869,420)
Accumulated Deferred Income Taxes	(1,485,214)	0	(1,485,214)	0	(1,485,214)
Customer Deposits	(208,584)	(12,068) (R)	(220,652)	0	(220,652)
Advances in Aid of Construction	(1,600)	0	(1,600)	0	(1,600)
Plant Acquisition Adjustment	(326,197)	0	(326,197)	0	(326,197)
<u>Total Rate Base</u>	<u>23,989,809</u>	<u>(378,603)</u>	<u>23,611,206</u>	<u>0</u>	<u>23,611,206</u>
<u>Return on Rate Base</u>	<u>0.36%</u>		<u>6.50%</u>		<u>14.27%</u>
<u>Operating Margin - Note</u>	<u>-8.00%</u>		<u>9.53%</u>		<u>23.75%</u>
<u>Interest Expense</u>	<u>653,687</u>	<u>124,883</u>	<u>778,570</u>		<u>778,570</u>

Note: Operating Margin is computed using Net Income for Return less Interest Expense and divided by Total Operating Revenues.

Carolina Water Service, Inc.
Docket No. 2011-47-WS
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2010
Water Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(6) After Applicant's Proposed Increase \$
<u>Operating Revenues:</u>					
Service Revenues - Water	2,173,555	260,064 (A)	2,433,619	1,973,636 (S)	4,407,255
Miscellaneous Revenues	95,741	7,114 (B)	102,855	114,115 (T)	216,970
Uncollectible Accounts	(244,489)	107,316 (C)	(137,173)	(341) (U)	(137,514)
<u>Total Operating Revenues</u>	<u>2,024,807</u>	<u>374,494</u>	<u>2,399,301</u>	<u>2,087,410</u>	<u>4,486,711</u>
<u>Operating Expenses</u>					
Maintenance Expenses	930,053	160,629 (D)	1,090,682	0	1,090,682
General Expenses	1,118,658	(184,793) (E)	933,865	0	933,865
Interest on Customer Deposits	0	741 (F)	741	0	741
Depreciation	393,833	(33,483) (G)	360,350	0	360,350
Amortization of CIAC	(107,375)	(7,691) (H)	(115,066)	0	(115,066)
Taxes Other Than Income	458,955	1,581 (I)	460,536	19,852 (V)	480,388
Income Taxes - State & Federal	117,983	(321,534) (J)	(203,551)	790,841 (W)	587,290
Amortization Investment Tax Credit	(5,138)	0	(5,138)	0	(5,138)
Amortization of Plant Acq. Adj.	(4,673)	0	(4,673)	0	(4,673)
<u>Total Operating Expenses</u>	<u>2,902,296</u>	<u>(384,550)</u>	<u>2,517,746</u>	<u>810,693</u>	<u>3,328,439</u>
<u>Total Operating Income</u>	<u>(877,489)</u>	<u>759,044</u>	<u>(118,445)</u>	<u>1,276,717</u>	<u>1,158,272</u>
Less: Interest During Construction	5,477	(5,477) (K)	0	0	0
Less: Interest on Debt	379,400	(379,400) (L)	0	0	0
Plus: Customer Growth	0	0 (M)	0	13,798 (X)	13,798
<u>Net Income for Return</u>	<u>(1,262,366)</u>	<u>1,143,921</u>	<u>(118,445)</u>	<u>1,290,515</u>	<u>1,172,070</u>
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	17,252,817	(256,965) (N)	16,995,852	0	16,995,852
Accumulated Depreciation	(3,437,523)	319,673 (O)	(3,117,850)	0	(3,117,850)
Net Plant in Service	13,815,294	62,708	13,878,002	0	13,878,002
Cash Working Capital	313,458	(60,390) (P)	253,068	0	253,068
Contributions in Aid of Construction	(6,044,637)	(553,263) (Q)	(6,597,900)	0	(6,597,900)
Accumulated Deferred Income Taxes	(862,018)	0	(862,018)	0	(862,018)
Customer Deposits	(127,325)	(741) (R)	(128,066)	0	(128,066)
Advances in Aid of Construction	(800)	0	(800)	0	(800)
Plant Acquisition Adjustment	(168,804)	0	(168,804)	0	(168,804)
<u>Total Rate Base</u>	<u>6,925,168</u>	<u>(551,686)</u>	<u>6,373,482</u>	<u>0</u>	<u>6,373,482</u>
<u>Return on Rate Base</u>	<u>-18.23%</u>		<u>-1.86%</u>		<u>18.39%</u>
<u>Operating Margin</u>	<u>-81.08%</u>		<u>-13.70%</u>		<u>21.44%</u>
<u>Interest Expense</u>	<u>379,400</u>	<u>(169,237)</u>	<u>210,163</u>		<u>210,163</u>

Note: Operating Margin is computed using Net Income for Return less Interest Expense and divided by Total Operating Revenues.

Carolina Water Service, Inc.
Docket No. 2011-47-WS
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended September 30, 2010
Sewer Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(6) After Applicant's Proposed Increase \$
<u>Operating Revenues:</u>					
Service Revenues - Sewer	5,170,766	155,769 (A)	5,326,535	726,254 (S)	6,052,789
Miscellaneous Revenues	69,216	87,283 (B)	156,499	155,322 (T)	311,821
Uncollectible Accounts	(176,753)	234,891 (C)	58,138	(464) (U)	57,674
<u>Total Operating Revenues</u>	<u>5,063,229</u>	<u>477,943</u>	<u>5,541,172</u>	<u>881,112</u>	<u>6,422,284</u>
<u>Operating Expenses</u>					
Maintenance Expenses	1,819,544	36,282 (D)	1,855,826	0	1,855,826
General Expenses	808,735	(133,637) (E)	675,098	0	675,098
Interest on Customer Deposits	0	536 (F)	536	0	536
Depreciation	617,253	(14,022) (G)	603,231	0	603,231
Amortization of CIAC	(217,456)	(4,423) (H)	(221,879)	0	(221,879)
Taxes Other Than Income	331,801	3,110 (I)	334,911	8,380 (V)	343,291
Income Taxes - State & Federal	85,297	577,937 (J)	663,234	333,820 (W)	997,054
Amortization Investment Tax Credit	(3,714)	0	(3,714)	0	(3,714)
Amortization of Plant Acq. Adj.	(5,189)	0	(5,189)	0	(5,189)
<u>Total Operating Expenses</u>	<u>3,436,271</u>	<u>465,783</u>	<u>3,902,054</u>	<u>342,200</u>	<u>4,244,254</u>
<u>Total Operating Income</u>	<u>1,626,958</u>	<u>12,160</u>	<u>1,639,118</u>	<u>538,912</u>	<u>2,178,030</u>
Less: Interest During Construction	3,960	(3,960) (K)	0	0	0
Less: Interest on Debt	274,287	(274,287) (L)	0	0	0
Plus: Customer Growth	0	14,329 (M)	14,329	4,711 (X)	19,040
<u>Net Income for Return</u>	<u>1,348,711</u>	<u>304,736</u>	<u>1,653,447</u>	<u>543,623</u>	<u>2,197,070</u>
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	34,967,470	94,903 (N)	35,062,373	0	35,062,373
Accumulated Depreciation	(5,358,157)	362,637 (O)	(4,995,520)	0	(4,995,520)
Net Plant in Service	29,609,313	457,540	30,066,853	0	30,066,853
Cash Working Capital	370,010	(53,644) (P)	316,366	0	316,366
Contributions in Aid of Construction	(12,052,034)	(219,486) (Q)	(12,271,520)	0	(12,271,520)
Accumulated Deferred Income Taxes	(623,196)	0	(623,196)	0	(623,196)
Customer Deposits	(81,259)	(11,327) (R)	(92,586)	0	(92,586)
Advances in Aid of Construction	(800)	0	(800)	0	(800)
Plant Acquisition Adjustment	(157,393)	0	(157,393)	0	(157,393)
<u>Total Rate Base</u>	<u>17,064,641</u>	<u>173,083</u>	<u>17,237,724</u>	<u>0</u>	<u>17,237,724</u>
<u>Return on Rate Base</u>	<u>7.90%</u>		<u>9.59%</u>		<u>12.75%</u>
<u>Operating Margin</u>	<u>21.22%</u>		<u>19.58%</u>		<u>25.36%</u>
<u>Interest Expense</u>	<u>274,287</u>	<u>294,120</u>	<u>568,407</u>		<u>568,407</u>

Note: Operating Margin is computed using Net Income for Return less Interest Expense and divided by Total Operating Revenues.

Carolina Water Service, Inc.

Docket No. 2011-47-WS

Explanation of Accounting and Pro Forma Adjustments

For the Test Year Ended September 30, 2010

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>Accounting and Pro forma Adjustments</u>			
<u>Operating Revenues</u>			
(A) Service Revenues			
1 To adjust service revenues to reflect test year customer billings.			
Per ORS	415,833	260,064	155,769
Per CWS	293,730	250,579	43,151
(B) Miscellaneous Revenues			
2 To adjust miscellaneous revenues to reflect various adjustments of the Water and Wastewater Department.			
Per ORS	94,397	7,114	87,283
Per CWS	0	0	0
(C) Uncollectible Accounts			
3 To adjust uncollectible accounts to reflect actual bad debt.			
Per ORS	342,207	107,316	234,891
Per CWS	(29,661)	(28,186)	(1,475)
<u>(D) Maintenance Expenses</u>			
Salaries & Wages			
4 To annualize operators' salaries for the test year.			
Per ORS	(13,918)	(8,072)	(5,846)
Per CWS	134,377	77,990	56,387
Purchased Sewer & Water			
5 To adjust for purchased sewer and water pass-through costs.			
Per ORS	249,878	210,484	39,394
Per CWS	249,878	210,484	39,394
Maintenance and Repair			
6 To remove water project write-off from operating expenses.			
Per ORS	(45,500)	(45,500)	0
Per CWS	0	0	0

Carolina Water Service, Inc.

Docket No. 2011-47-WS

Explanation of Accounting and Pro Forma Adjustments

For the Test Year Ended September 30, 2010

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Transportation			
7 To adjust for allocated transportation expense including fuel and auto repairs.			
Per ORS	(63,364)	(36,776)	(26,588)
Per CWS	(27,880)	(16,181)	(11,699)
Operating Expenses Charged to Plant			
8 To adjust operating expense charged to plant (capitalized time) for actual salary expenses and associated taxes and benefits.			
Per ORS	69,815	40,493	29,322
Per CWS	48,773	28,313	20,460
Total ORS - Maintenance Expenses	196,911	160,629	36,282
(E) General Expenses			
Salaries & Wages			
9 To annualize office salaries for the test year.			
Per ORS	(27,000)	(15,660)	(11,340)
Per CWS	(28,970)	(16,814)	(12,156)
Office Supplies & Other Office Expense			
10 To remove nonallowable amounts from office supplies and other office expenses.			
Per ORS	(38,947)	(22,605)	(16,342)
Per CSW	(127)	(74)	(53)
Regulatory Commission Expense			
11 To amortize current rate case expenses over a three-year period.			
Per ORS	(207,386)	(120,367)	(87,019)
Per CWS	(199,261)	(115,651)	(83,610)
Pension & Other Benefits			
12 To annualize pension and other benefits associated with the adjusted test year salaries.			
Per ORS	(32,038)	(18,582)	(13,456)
Per CWS	65,675	38,117	27,558

Carolina Water Service, Inc.
Docket No. 2011-47-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2010

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Non-Utility Miscellaneous Income and Expenses			
13 To remove non-utility income and expenses.			
Per ORS	(13,059)	(7,579)	(5,480)
Per CWS	0	0	0
Total ORS - General Expenses	(318,430)	(184,793)	(133,637)
(F) Interest on Customer Deposits			
14 To annualize interest on customer deposits.			
Per ORS	1,277	741	536
Per CWS	0	0	0
(G) Depreciation Expense			
15 To annualize depreciation expense for known and measurable plant in service.			
Per ORS	(47,505)	(33,483)	(14,022)
Per CWS	33,938	18,392	15,546
(H) Amortization of Contributions in Aid of Construction (CIAC)			
16 To annualize the amortization of CIAC.			
Per ORS	(12,114)	(7,691)	(4,423)
Per CWS	(17,617)	(8,696)	(8,921)
(I) Taxes Other Than Income			
17 To adjust payroll taxes associated with the adjusted test year salaries.			
Per ORS	(3,416)	(1,981)	(1,435)
Per CWS	12,185	7,072	5,113
18 To adjust gross receipts and utility/commission taxes after the accounting and pro forma adjustments using a factor of .00951022 (.003 for SCDOR and .00651022 for PSC/ORS.)			
Per ORS	8,107	3,562	4,545
Per CWS	294	251	43
Total Per ORS -Taxes Other Than Income	4,691	1,581	3,110

Carolina Water Service, Inc.
Docket No. 2011-47-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2010

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(J) Income Taxes			
19 To adjust state and federal income taxes after accounting and pro forma adjustments. See Audit Exhibit SGS-6.			
Per ORS	256,403	(321,534)	577,937
Per CWS	(160,620)	(507,594)	346,974
(K) Interest During Construction (IDC)			
20 To eliminate IDC for rate making purposes. Construction work in progress was not included in rate base; therefore, IDC is eliminated as an addition to net income.			
Per ORS	(9,437)	(5,477)	(3,960)
Per CWS	(9,437)	(5,477)	(3,960)
(L) Interest on Debt			
21 To eliminate interest expense from operating expenses. Adjusted interest expense will be used to compute an operating margin.			
Per ORS	(653,687)	(379,400)	(274,287)
Per CWS	180,333	(121,130)	301,463
(M) Customer Growth			
22 To adjust for customer growth after accounting and pro forma adjustments. The growth factors of 1.19126% for water and .87421% for wastewater were provided by the Water and Wastewater Department.			
Per ORS	14,329	0	14,329
Per CWS	0	0	0
(N) Gross Plant in Service			
23 To reflect adjusted vehicles allocated to CWS.			
Per ORS	(365,155)	(211,936)	(153,219)
Per CWS	(191,515)	(111,155)	(80,360)
24 To adjust gross plant in service for net additions documented as of June 2011.			
Per ORS	1,876,401	1,010,439	865,962
Per CWS	1,251,683	893,630	358,053

Carolina Water Service, Inc.
Docket No. 2011-47-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2010

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
25 To reduce capitalized salaries, taxes, and benefits associated with Operating Expenses Charged to Plant.			
Per ORS	(69,815)	(40,493)	(29,322)
Per CWS	0	0	0
26 To include plant for water project that should be capitalized.			
Per ORS	45,500	45,500	0
Per CWS	0	0	0
27 To adjust for computer allocation updates and removal of a portion of the Customer Care and Billing System.			
Per ORS	(397,643)	(230,792)	(166,851)
Per CWS	0	0	0
28 To remove excess book value according to previous orders.			
Per ORS	(743,227)	(431,369)	(311,858)
Per CWS	0	0	0
29 To remove non-allowable plant.			
Per ORS	(508,123)	(398,314)	(109,809)
Per CWS	0	0	0
Total Per ORS	<u>(162,062)</u>	<u>(256,965)</u>	<u>94,903</u>
(O) Accumulated Depreciation			
30 To adjust for depreciation expense, retirements and nonallowable plant.			
Per ORS	<u>682,310</u>	<u>319,673</u>	<u>362,637</u>
Per CWS	<u>120,359</u>	<u>69,856</u>	<u>50,503</u>
(P) Cash Working Capital			
31 To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit SGS-7.			
Per ORS	<u>(114,034)</u>	<u>(60,390)</u>	<u>(53,644)</u>
Per CWS	<u>32,176</u>	<u>26,934</u>	<u>5,242</u>

Carolina Water Service, Inc.
Docket No. 2011-47-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended September 30, 2010

<u>Description</u>	<u>\$</u> <u>Combined</u> <u>Operations</u>	<u>\$</u> <u>Water</u> <u>Operations</u>	<u>\$</u> <u>Sewer</u> <u>Operations</u>
(Q) Contributions in Aid of Construction (CIAC)			
32 To adjust CIAC to reflect contributions after the test year and remove Non-CIAC included in revenues.			
Per ORS	(784,863)	(560,954)	(223,909)
Per CWS	0	0	0
33 To adjust CIAC to reflect the amortization of CIAC expense as a result of ORS Adjustment 16.			
Per ORS	12,114	7,691	4,423
Per CWS	0	0	0
Total ORS CIAC	(772,749)	(553,263)	(219,486)
(R) Customer Deposits			
34 To adjust for interest on customer deposits as a result of Adjustment #14.			
Per ORS	(1,277)	(741)	(536)
Per CWS	0	0	0
35 To adjust to reflect correct customer deposits balance per books.			
Per ORS	(10,791)	0	(10,791)
Per CWS	0	0	0
Total ORS Customer Deposits	(12,068)	(741)	(11,327)
<u>Proposed Increase</u>			
(S)			
36 To adjust water and sewer service revenues for ORS's recalculation of the Company's proposed rate increase.			
Per ORS	2,699,890	1,973,636	726,254
Per CWS	2,470,877	1,966,875	504,002
(T)			
37 To adjust miscellaneous revenues for ORS's recalculation of the Company's proposed rate increase.			
Per ORS	269,437	114,115	155,322
Per CWS	0	0	0

Carolina Water Service, Inc.

Docket No. 2011-47-WS

Explanation of Accounting and Pro Forma Adjustments

For the Test Year Ended September 30, 2010

Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(U)			
38 To adjust for uncollectible accounts associated with the Company's proposed rate increase.			
Per ORS	(805)	(341)	(464)
Per CWS	(238,469)	(221,241)	(17,228)
(V)			
39 To adjust gross receipts and utility/commission taxes associated with the Company's proposed increase using a factor of .00951022 (.003 for SCDOR and .00651022 for PSC/ORS.)			
Per ORS	28,232	19,852	8,380
Per CWS	2,471	1,967	504
(W)			
40 To adjust state and federal income taxes associated with the Company's proposed increase. See Audit Exhibit SGS-6.			
Per ORS	1,124,661	790,841	333,820
Per CWS	852,950	666,952	185,998
(X)			
41 To adjust for customer growth after the proposed increase. The growth factors of 1.19126% for water and .87421% for wastewater were provided by the Water and Wastewater Department.			
Per ORS	18,509	13,798	4,711
Per CWS	0	0	0

Carolina Water Service, Inc.
Docket No. 2011-47-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended September 30, 2010

	Combined Operations \$	Water Operations \$	Sewer Operations \$
<u>Depreciation Adjustment</u>			
Gross Plant @ September 30, 2010	52,220,287	17,252,817	34,967,470
Add/Remove			
Net Plant Additions @ June 2011	1,876,403	1,010,440	865,963
Capitalize Well Project	45,500	45,500	0
Non-Allowable Plant	(508,123)	(398,314)	(109,809)
Capitalized Time from Wage Adjustment	(69,815)	(40,493)	(29,322)
Less:			
Organization @ 9/30/10	(110,429)	(82,784)	(27,645)
Land @ 9/30/10	(268,191)	(178,189)	(90,002)
Vehicles @ 9/30/10	(654,785)	(379,775)	(275,010)
Computers @ 9/30/10	(2,115,498)	(1,227,835)	(887,663)
<u>Net Plant</u>	50,415,349	16,001,367	34,413,982
Plant Depreciation @ 1.5% (66.67 years)	<u>756,231</u>	<u>240,021</u>	<u>516,210</u>
<u>Vehicles @ 9/30/10</u>	289,630	167,985	121,645
Less: Fully Depreciated Vehicles	(35,508)	(20,595)	(14,913)
	<u>254,122</u>	<u>147,390</u>	<u>106,732</u>
Vehicle Depreciation @ 16.67% (6 years)	<u>42,362</u>	<u>24,570</u>	<u>17,792</u>
<u>Computers @ 9/30/10</u>	1,717,855	997,043	720,812
Less: Fully Depreciated Computers	(165,402)	(95,999)	(69,403)
	<u>1,552,453</u>	<u>901,044</u>	<u>651,409</u>
Computer Depreciation @ 12.5% (8 years)	<u>194,057</u>	<u>112,631</u>	<u>81,426</u>
Less: Amortization of Excess Book Value	<u>(29,069)</u>	<u>(16,872)</u>	<u>(12,197)</u>
Total Depreciation	<u>963,581</u>	<u>360,350</u>	<u>603,231</u>
Less: Per Books Depreciation	<u>1,011,086</u>	<u>393,833</u>	<u>617,253</u>
ORS Adjustment	<u>(47,505)</u>	<u>(33,483)</u>	<u>(14,022)</u>
Company's Adjustment	<u>(17,185)</u>	<u>(2,841)</u>	<u>(14,344)</u>
<u>Amortization of CIAC Adjustment</u>			
Gross CIAC @ 9/30/10	(21,678,187)	(7,110,134)	(14,568,053)
CIAC Additions After Test Year	(856,576)	(560,954)	(295,622)
Remove Non-CIAC Revenue	71,713	0	71,713
Total CIAC	<u>(22,463,050)</u>	<u>(7,671,088)</u>	<u>(14,791,962)</u>
CIAC Amortization @ 1.5% (66.67 years)	(336,945)	(115,066)	(221,879)
Less: Per Books Amortization of CIAC	<u>(324,831)</u>	<u>(107,375)</u>	<u>(217,456)</u>
ORS Adjustment	<u>(12,114)</u>	<u>(7,691)</u>	<u>(4,423)</u>
Company's Adjustment	<u>(17,617)</u>	<u>(8,696)</u>	<u>(8,921)</u>

Carolina Water Service, Inc.
Docket No. 2011-47-WS
Computation of Income Taxes
For the Test Year Ended September 30, 2010

After Accounting & Pro Forma Adjustments

	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	7,940,473	2,399,301	5,541,172
Less: Operating Expenses	<u>5,960,117</u>	<u>2,721,297</u>	<u>3,238,820</u>
Net Operating Income Before Taxes	1,980,356	(321,996)	2,302,352
Less: Annualized Interest Expense	<u>778,570</u>	<u>210,163</u>	<u>568,407</u>
Taxable Income - State	1,201,786	(532,159)	1,733,945
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	60,089	(26,608)	86,697
Less: State Income Taxes Per Book	<u>21,770</u>	<u>12,635</u>	<u>9,135</u>
Adjustment to State Income Taxes	<u>38,319</u>	<u>(39,243)</u>	<u>77,562</u>
Taxable Income - Federal	1,141,697	(505,551)	1,647,248
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	399,594	(176,943)	576,537
Less: Federal Income Taxes Per Book	<u>181,510</u>	<u>105,348</u>	<u>76,162</u>
Adjustment to Federal Income Taxes	<u>218,084</u>	<u>(282,291)</u>	<u>500,375</u>
Total Adjustment to Income Taxes	<u>256,403</u>	<u>(321,534)</u>	<u>577,937</u>

After Applicant's Proposed Increase

	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	10,908,995	4,486,711	6,422,284
Less: Operating Expenses	<u>5,988,349</u>	<u>2,741,149</u>	<u>3,247,200</u>
Net Operating Income Before Taxes	4,920,646	1,745,562	3,175,084
Less: Annualized Interest Expense	<u>778,570</u>	<u>210,163</u>	<u>568,407</u>
Taxable Income - State	4,142,076	1,535,399	2,606,677
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	207,104	76,770	130,334
Less: State Income Taxes As Adjusted	<u>60,089</u>	<u>(26,608)</u>	<u>86,697</u>
Adjustment to State Income Taxes	<u>147,015</u>	<u>103,378</u>	<u>43,637</u>
Taxable Income - Federal	3,934,972	1,458,629	2,476,343
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	1,377,240	510,520	866,720
Less: Federal Income Taxes As Adjusted	<u>399,594</u>	<u>(176,943)</u>	<u>576,537</u>
Adjustment to Federal Income Taxes	<u>977,646</u>	<u>687,463</u>	<u>290,183</u>
Total Adjustment to Income Taxes	<u>1,124,661</u>	<u>790,841</u>	<u>333,820</u>

Surrebuttal Audit Exhibit SGS-7

**Carolina Water Service, Inc.
Docket No. 2011-47-WS
Cash Working Capital Allowance
For the Test Year Ended September 30, 2010**

<u>After Accounting & Pro Forma Adjustments</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Sewer Operations</u>
Maintenance Expenses	2,946,508	1,090,682	1,855,826
General Expenses	<u>1,608,963</u>	<u>933,865</u>	<u>675,098</u>
Total Expenses for Computation	4,555,471	2,024,547	2,530,924
Allowable Rate	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital	569,434	253,068	316,366
Cash Working Capital - Application Per Books	<u>683,468</u>	<u>313,458</u>	<u>370,010</u>
Cash Working Capital Adjustment - ORS Accounting & Pro Forma Adjustment	<u>(114,034)</u>	<u>(60,390)</u>	<u>(53,644)</u>
Cash Working Capital Adjustment - CWS	<u><u>32,176</u></u>	<u><u>26,934</u></u>	<u><u>5,242</u></u>

Carolina Water Service, Inc.
Docket No. 2011-47-WS
Return on Equity
Capital Structure at September 30, 2010

Combined Operations

Description	(Note) Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	12,022,108	6.58%	3.30%	\$ 791,055	11,832,377	6.58%	3.30%	\$ 778,570	11,832,377	6.58%	3.30%
Members' Equity	179,185,409	11,967,701	-5.89%	-2.94%	(704,710)	11,778,829	6.42%	3.20%	756,432	11,778,829	21.99%	10.97%
Totals	\$ 359,185,409	23,989,809	0.36%		86,345	23,611,206		6.50%	1,535,002	23,611,206		14.27%

Water Operations

Description	Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	3,470,437	6.58%	3.30%	\$ 228,355	3,193,968	6.58%	3.30%	\$ 210,163	3,193,968	6.58%	3.30%
Members' Equity	179,185,409	3,454,731	-43.15%	-21.53%	(1,490,721)	3,179,514	-10.34%	-5.16%	(328,608)	3,179,514	30.25%	15.09%
Totals	\$ 359,185,409	6,925,168	-18.23%		(1,262,366)	6,373,482		-1.86%	(118,445)	6,373,482		18.39%

Sewer Operations

Description	Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
Long-Term Debt	\$ 180,000,000	8,551,671	6.58%	3.30%	\$ 562,700	8,638,409	6.58%	3.30%	\$ 568,407	8,638,409	6.58%	3.30%
Members' Equity	179,185,409	8,512,970	9.23%	4.60%	786,011	8,599,315	12.62%	6.29%	1,085,040	8,599,315	18.94%	9.45%
Totals	\$ 359,185,409	17,064,641	7.90%		1,348,711	17,237,724		9.59%	1,653,447	17,237,724		12.75%

Note: ORS used the capital structure of Utilities, Inc., the parent company.

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2011-47-WS

IN RE: Application of Carolina Water Service,)
 Incorporated for Approval of an Increase in)
 Its Rates for Water and Sewer Services) **CERTIFICATE OF**
 Provided to All of Its Service Areas in South) **SERVICE**
 Carolina)

This is to certify that I, Pamela J. McMullan, have this date served one (1) copy of the
SURREBUTTAL TESTIMONY AND EXHIBITS OF DAWN M. HIPPI, WILLIE J.
MORGAN AND SHARON G. SCOTT in the above-referenced matter to the person(s) named
below by electronic mail or U.S. Mail addressed as shown below:

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A handwritten signature in black ink, appearing to be 'Pamela J. McMullan', written over a horizontal line.

Pamela J. McMullan

August 31, 2011
Columbia, South Carolina